Archive 1: A new strategy for the New Zealand Society of Accountants: A personal view

The essay presented as Archive 1 was written in response to a proposal to restructure the political configuration of the New Zealand Society of Accountants whilst it still had that name. It has since changed to become the New Zealand Institute of Chartered Accountants. The essay is undated but was written in about 1991 or 1992.

The essay was a response to significant structural change that was proposed in a paper published by the Society as it then was. As is evident from the text of the essay the review was accompanied by a series of meetings of accountants at which the then President of the Society – Gill Cox – explained the rationale. Essentially the proposal entailed creating three classes of membership. At one end of the scale there it was proposed to have a group for chartered accountants and the other a new group whose membership would be persons designated accounting technicians. In between there would be a class of associate chartered accountants (the so-called ACA college).

In some measure the essay hints at the reasoning but the official rationale was to enable there to be a class of membership for people who had qualified as accountants but no longer undertook accounting work. These people would be subject to a less demanding regime for continuing professional development. Whether the three tier structure, for it was implemented, was a success or not is moot. Certainly, the ACA college has been a problem child ever since.

The publication of the structural review coincided with the issue of a document entitled *A Proposed Framework for Financial Reporting in New Zealand.* I attach the Introduction to the document to facilitate an understanding of context. The purpose of the framework was to introduce the New Zealand version of the conceptual framework. The New Zealand version is a distilled version of the conceptual statements developed by FASB. The structure of what was to become NZ GAAP was defined in an Explanatory Foreword. This was being done to prepare for the enactment of new corporate and financial reporting law. It is also signalled the shift from historic cost to fair value accounting.

More significantly, perhaps, was that the New Zealand version made provision for public sector financial reporting. It reflected the recently enacted Public Finance Act which incorporated a notion that mimicked commercial contractual arrangements in the relationship between government agencies and their 'customers', being politicians. I suspect this idea has not weathered well nor, I think, the idea that one common set of financial reporting standards can apply across the spectrum of public and private, commercial and non-commercial organisations.

An extremely influential figure in the formulation of both the strategic review and the financial reporting framework was Dr Ian Ball, then occupying the role of Central Financial Controller at the New Zealand Treasury and now the chief executive at IFAC. The public sector emphasis in the New Zealand conceptual framework owes much to him. I attended a meeting to discuss the review and I had taken my copy of the financial reporting framework. I said to the meeting that I thought the strategic review should have awaited the outcome of the financial reporting framework. Dr Ball who had attended all of the meetings around the country came and spoke to me and said that I was the only person in the country who had linked the two documents together.

Do I agree with myself across the decades? The answer is: not entirely and, perhaps, not at all. The essay makes three propositions.

Firstly, it claims that the introduction of what was basically fair value accounting would cause fragmentation within the discipline of accounting. It calls for a unifying central principle to avoid the fractures. I do not resile from this claim. I believe that what I predicted has come to pass.

Secondly, it proposes to widen the scope of standard setting to encompass the activities of what is essentially general practice. Even if I still agree with the diagnosis, I certainly no longer agree with the remedy. Standard setting has become the problem. Standard setting of all sorts, professional, ethical or those pertaining to accounting have not solved the problems they were designed to cure. All they have succeeded in doing is heap unnecessary complexity onto accounting practitioners and they continue to do so. The result is disastrous.

Thirdly, I indentify a unifying principle which is, simply, double entry book-keeping. The theory is that a core, transcendental belief is the essential condition to maintain ethical discipline. The essay concludes with a citation from the *Tao Te Ching*. Here is the same thought expressed elsewhere within that work: 'when there is a lack of faith, there is a lack of good faith'.

Do I still believe this? In some measure yes I do. For human institutions to work they need a mystique. Do I still believe that accounting has the potential for a unifying mystique? Currently, I don't. I see accounting as something sinister now. I don't think this strand of sinistrality is a recent phenomenon. I think it was always thus. In short, I have lost my faith.

To adapt a common saying it might be the case that the priest whom God would destroy he first deprives the priest of his faith.

Archive 2

As I have gone back through my old papers I came across this document. It appears to be a speech I gave. I have no recollection of writing it, still less of delivering it. It would seem as though I was addressing bank officials. I certainly don't recall being invited to repeat the exercise so I assume they were unimpressed with what I had to say.

If this document is compared to that in Archive 1, it can be seen that the theme is similar. It is primarily focused upon criticising the standard setting process. The criticisms are twofold.

I expressed concern that the Society of Accountants (now the Institute) had abandoned any role it might have had in establishing frameworks for the accounting process in its entirety in favour of its role in standard setting.

Secondly, I complain about the abandonment of the historic cost convention. I had probably begun to study Ijiri's *Theory of Accounting Measurement* by then. However, I had gone in search of Ijiri due to my own disquiet about what was happening. As I look back I can see now that I misread Ijiri and embarked on an intellectual project over the next decade or so that was doomed at the outset but that is another story.

I had been deeply suspicious of the introduction of fair value accounting for a few years before I encountered the conceptual framework.

Perhaps what needs to be understood is that New Zealand had enthusiastically embraced fair value accounting early on. The Society (as was) promulgated SSAP-17 *Accounting for Investment Properties and Properties Intended for Re-sale* in February 1989. It had a heavy emphasis on revaluation accounting. I did not pay much attention at the time because I had no involvement in accounting for property. Almost contemporaneously, the Society published an expose draft on accounting for what were still called fixed assets. The same emphasis was adopted in regard to revaluation. Fixed assets are pervasive in accounting and as a traditionally trained accountant, I became perturbed.

I wrote a submission to the Society objecting to revaluation accounting. My argument was that that fair value accounting would have the effect of emasculating the power that accounting derives from double entry. I could see that the replacement of one superficial entry with another from one period end to the next would appear to be double entry but it would have only the appearance of double entry and not the substance. A masquerade of this nature I thought to be very dangerous.

At about that time I held the position of group accountant at the Bank of New Zealand. In that capacity I remember attending a meeting at the bank during which a visiting American academic gave a briefing on the savings and loan scandal which had begun to afflict the US in the 1980s. He claimed the solution to the problem was fair value accounting. From memory, the S&L institutions had funded fixed term, fixed interest lending with variable interest liabilities. His point was that the historic cost convention had caused the assets to be over-valued compared to the funding. Mine was the only voice raised in dissent. I tried to explain that I thought what he advocated would break the bond financial reporting had to the underlying mechanics of accounting.

The American professor and I looked at one another across a divide of mutual incomprehension. I am sure he considered me a relic of a by-gone age. I thought of him as a dangerous harbinger, though well intentioned he was hell bent on the destruction of accounting. To this day I would have difficulty explaining what I meant. The power of accounting is derived from double entry. To ascribe equal meaning or validity to entries masquerading as double entry as those entries which genuinely emerge from the accounting process is a travesty.

Even Ijiri has trouble explaining this phenomenon. I understand what he says because I saw it before I read what he wrote. You either see it or you don't. If you do you are an accountant, if you don't you aren't.

Whilst the author of the parable may have had something else in mind, I think this may help explain what I mean:

Some [seed] fell upon stony ground, where they had not much earth: and forthwith they sprang up, because they had no deepness of earth:

And when the sun was up, they were scorched; and because they had no root, they withered away.

Mathew Chapter 13 verses 5 and 6

It is the deepness of root that is decisive.

Companies Act 1993: Compromises

Managing Corporate Insolvency

Part XIV of the Companies Act: Compromise Theory and Practice

A power point display which summarises the points made in the second document

Appendices- templates for implementing compromises

I am happy for all to have access to the material but there are conditions. These are:

- If the documents are used I accept no financial responsibility for such use unless I have communicated in writing with the person seeking to rely on the material.
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- For those of you who do not come to compromise with honest intent, what lies herein is not for you. Don't waste the energy in your clicking finger.